

VZCZCXRO7386
RR RUEHLMC
DE RUEHLM #0559/01 1000539
ZNR UUUUU ZZH
R 100539Z APR 06
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 3055
RUCPDO/USDOC WASHDC
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUEHNE/AMEMBASSY NEW DELHI 9467
RUEHKA/AMEMBASSY DHAKA 9083
RUEHIL/AMEMBASSY ISLAMABAD 5972
RUEHKT/AMEMBASSY KATHMANDU 4006
RUEHCG/AMCONSUL CHENNAI 6518
RUEHML/AMEMBASSY MANILA 1514
RUEHLMC/MILLENNIUM CHALLENGE CORP

UNCLAS SECTION 01 OF 02 COLOMBO 000559

SIPDIS

STATE FOR SA/INS; MANILA FOR USADB; MCC FOR D NASSIRY AND E
BURKE; USDOC FOR EROL YESIN

SENSITIVE, SIPDIS

E.O 12958: N/A

TAGS: [EAIR](#) [EFIN](#) [ECON](#) [CE](#)

SUBJECT: SRI LANKAN AIRLINES INTERESTED IN BOEING AIRCRAFT

¶1. (SBU) Summary: Sri Lankan Airlines (SLA), Sri Lankas national carrier, is in contact with Boeing and Airbus regarding gradual replacement of its current all Airbus fleet. Boeing will have tough competition from Airbus, due to its existing hold on Sri Lankan Airlines and its partner Emirates Airlines of UAE (Emirates). The airlines future plans will also rest on the decision by the Sri Lankan Government (GSL), SLAs majority shareholder, to renew the he Emirates current management contract. End Summary.

¶2. (SBU) EconOff met with Peter Hill, Chief Executive Officer of SLA, Sri Lankas national carrier, on March 29 to learn about its plans to purchase new aircraft. Previously, the Ambassador had heard of SLAs interest to purchase Boeing Aircraft from local business tycoon Harry Jayawardena, who is also the Chairman of SLA. Hill confirmed that SLA is exploring the possibility of acquiring new aircraft to replace its ageing fleet as part of its medium-term business plan, currently under development. According to Hill, due to SLAs ageing fleet with most aircraft hitting 10 years by 2008-09, equipment needs will be a key component of the SLA business plans for 2008-2013 (medium term) and beyond.

¶3. (SBU) SLA is owned jointly by the GSL (51%) and Emirates (43%) with employees owning the remaining shares. Emirates also manages the airline under a 10 year management agreement. Hill, one of the only two expatriate staff aff seconded by Emirates to SLA, said that Emirates wants to secure the renewal of its management contract (which ends in 2008) and work diligently on medium-term and long-term plans for SLA. According to Hill, SLA has performed well during the past eight years under Emirates management and has been able to pay dividends to the GSL, in contrast to the pre-Emirates situation where the GSL needed to keep rescuing the airline financially.

¶4. (SBU) Hill expressed hope that SLA will benefit from peace, increased foreign direct investment and tourism into Sri Lanka. However, the new SLA board has been slow in determining when to begin contract renewal discussions and whether to establish medium- and long-range business plans. (Comment: This board is the eighth appointed by the GSL since Emirates took over management of SLA. It is currently chaired by Harry Jayawardena, who served as Chairman/CEO of SLA immediately prior to Hills appointment to the position

eight years ago. Jayawardenas historical role in SLA raises the possibility that SLA Board leadership may seek to remove Emirates and their named CEO, returning management control to Sri Lankans. End Comment.)

15. (SBU) The airline is already in contact with both Boeing and Airbus. Hill noted that Boeing has already made presentations in Colombo and will return soon for further discussions. According to Hill, SLAs shopping list (during the next few years) will include replacements for A340, A330 and A320 aircraft. SLAs primary replacement need is for long-range wide-bodied aircraft to replace the five current A340 aircraft (potentially with Boeing 777s). In addition, SLA will eventually shop for the replacement of four A330 aircraft purchased in 1999/2000 (potentially with Boeing 787s). SLA will also need to replace five A320 aircraft, as their leases will expire from 2007 onwards. The A320s fly to short-haul destinations in India, with a passenger load ad of 130-150. Hill said SLA is likely to stick to Airbus for this final component of its fleet. He said a different vendor (i.e., Boeing) will have to come up with a sweetheart deal for SLA to consider a change from the A320 model.

16. (SBU) Hill also revealed that SLA benefits from Emirate contracts with aircraft manufacturers, which extends Emirates regular terms and conditions to SLA. While SLA talks with its current aircraft supplier Airbus, prospects are not all dim for Boeing, as Emirates has also entered into agreements recently with Boeing. On financing, Hill said that they would rely on the credibility of Emirates to raise finances for the aircraft and not seek government financing.

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17. (SBU) Comment: The prospect of moving the national airline into a more pro-Boeing position could tremendously reduce the current US trade deficit with Sri Lanka. The Embassy considers this a high priority over the coming months, and will seek ways maximize the potential for this his high-value US sale.

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